Service Date: December 22, 1993

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER OF the Proposed Line Extension Policy of Montana Power Company, Revising Service Rules/ Electric and Gas Tariffs.	))))	UTILITY DIVISION DOCKET NO. 93.4.16 ORDER NO. 5715a

FINAL ORDER

FINDINGS OF FACT

Introduction

1. Montana Power Company (MPC) filed revised gas and electric line extension tariffs and testimony in April of 1993. The Montana Consumer Counsel (MCC) intervened and testified on MPC's proposals. The MCC and MPC then stipulated to the content of gas and electric line extension tariffs. This order reviews the proposals submitted by parties and the stipulation, concluding with the Commission's approval of the stipulation.

2. In this docket the Commission identified an additional issue - the economics of substituting photovoltaics, or another technology, for traditional electric line extensions. The Commission granted MPC's request to move this additional issue to a separate docket on October 13, 1993. The only issue remaining in this docket is that of MPC's line extension policies.

MPC's Line Extension Proposals

3. On April 29, 1993, MPC proposed revisions to the line extension service tariffs for the electric and gas utilities. The proposals affect residential and business or commercial customers. As proposed, the residential electric service would allow a free extension allowance (FEA) of 300 feet of primary line plus a drop line and meter. The FEA for underground would be 250 feet. For new residential natural gas service the FEA includes 600 feet of main plus service line and meter.

4. Under the proposed tariffs, the FEA for nonresidential customers is a multiple of annual usage times $.15/kwh for new electric service and $14.00/mcf times annual usage for new natural gas service. This proposal replaces the current practice of using expected revenues as the FEA basis. MPC initially requested that these proposed tariffs be instituted for the 1994 construction season.

5. The previous tariffs determined FEAs for residential electric and gas extensions based on the expected annual revenue (EAR) multiples, 5 for electric and 3 for gas service. The proposed residential tariffs are limited by distance rather than by annual revenue. The fixed distance reduces the maximum allowed free extension for electric service, while slightly

increasing the typical allowance for a gas customer. The following illustrates MPC's existing and proposed line extension tariffs (Exh. JMF-1, pages 1 and 2).

FREE RESIDENTIAL <u>ELECTRIC</u> LINE EXTENSION ALLOWANCES

		Allowance with <u>Existing Policy</u>	Allowance with <u>Proposed Policy</u>
A.	Average Residential Customer usage 8,738 KWHR/yr EAR = $468*	5 X $468 = $2,340	300 Ft. Overhead $2,230
B.	Residential Electric Customer with Electric Water Heating usage 14,738 KWHR/yr EAR = $790*	5 X $790 $3,950	300 Ft. Overhead Primary and Service $2,230
C.	Residential Electric Customer with Electric House and Water Heating usage 31,223 KWHR/yr EAR = $1,775*	5 X $1,775 $8,875	300 Ft. Overhead $2,230

* KWHR x price

FREE RESIDENTIAL <u>GAS</u> LINE EXTENSION ALLOWANCES

	Existing Policy	Proposed Policy
A. Average Residential Gas Customer Usage 120 Mcf/yr *EAR = $511/yr	3 X 511 = $1,533	600 ft. of main service **$1,875
B. Average Residential Gas Customer with Water Heating and Automatic Water Usage 162 Mcf/yr ***EAR = $673/yr	3 X 673 = $2,019	600 ft. of main service $1,875

* 120 Mcf x $3.858/Mcf + 12 x $4.00 = $511
** 600 ft. x $3.125/ft. = $1,875
*** 162 Mcf x $3.858 + 12 x $4.00 = $673

6. MPC lists three ingredients of a good line extension policy: fairness, efficiency and simplicity. By fairness, MPC means that similar customers are treated similarly. By efficiency, MPC means a line extension policy that signals to the customer the cost of connecting to the system. By simplicity, MPC means that customers and company personnel can equally understand and administer the policy. MPC did not base the proposed line extension policies equally on these three ingredients, however. For example, for electric line extensions MPC stated that equity ought to be the concern (p. JMF-16). Yet,

one reason MPC gave for the 300 foot residential allowance is that the increased power supply costs are "substantially" above the embedded costs (JMF-16).

MCC's Line Extension Proposals

7. In John Bushnell's testimony, he provides the MCC's line extension proposals which reference its stipulation with the MPC. The MCC agrees that MPC's residential policy breaks the link with "usage" and ends the past bias in favor of electric space heating. That is, with MPC's proposal it will cease paying customers to take more electricity. For commercial customers, the FEA based on usage is less likely to be biased in favor of electricity (p. JB-4).

8. MCC's only apparent point of contention is with MPC's proposed residential gas line extension proposal. Under the stipulation, the residential gas FEA is the product of $14.00/mcf times expected annual usage. MCC is concerned that the cost basis for the value needs to be addressed, but believes that it should be determined in MPC's next cost of service filing.

The Content of the Stipulation

9. The stipulation agreement filed by MCC and MPC contains the following summary information on line extension FEAs.

		MPC Proposed	As Stipulated
Electric			
Residential	Overhead	300 Feet Plus meter drop and transformer	MPC's proposal
	Underground	250 Feet	MPC's proposal
General Service	Over and under	$.15/kwh/yr	MPC's proposal
Industrial		Individual estimate	MPC's proposal
Other Classes		Not discussed	MPC's proposal
Gas			
Residential		600 Feet (main and service)	$14.00/mcf
Commercial		$14.00/mcf	MPC's proposal
Industrial		Not discussed	MPC's proposal
Other Classes		Not discussed	MPC's proposal

The other classes for which new policies are not proposed are contract industrial customers in the GS-2 class (MPC DR PSC 1-006).

The Commission's Decision

10. The Commission's interest in more efficient line extension rate designs spans over a decade. Like many policies, improved line extension policies have taken time to implement. The changes in MPC's testimony, as amended by the stipulation

with MCC, address many of the promotional incentives in MPC's current policies. MPC's policies do not jeopardize universal service. However, the cost and efficiency basis is in doubt for the stipulation's gas FEA proposals.

11. In 1982, the Commission staff assessed all existing line extension tariffs within the Commission's jurisdiction. The staff expressed concerns with the promotional incentive structure of some line extension tariffs. In 1983, the Commission initiated a rulemaking proceeding to revise its line extension policies and held a hearing in January 1984. In that proceeding, MPC did not propose to revise its line extension policies, which remained intact until the present docket.

12. The Commission's first concern is whether MPC's gas line extension policy is efficient. For a policy to be efficient, it must reflect the costs to connect the customer to the system. MPC's gas line FEA of $14.00/Mcf is tied to MPC's testimony in its last cost of service docket (No. 90.01.01, MPC DR PSC 4-24-d). In that docket, however, the Commission did <u>not</u> approve MPC's cost studies. The Commission continues its past decision <u>not</u> to approve MPC's gas costs from Docket No. 90.1.1. Therefore, policy is the only basis on which to accept the cost of $14.00/mcf for the FEA. Until MPC's next gas cost of service

docket, the Commission finds the stipulated proposals acceptable.

13. A second concern regards the accuracy of line extension cost data MPC uses for ratemaking. In a data response (DR PSC 1-005-c), MPC states that it does not separate new line extension costs by customer class. Therefore, no historical cost records, distinguishable by class, exist. The Commission questions the extent to which MPC then uses historical costs to estimate tariff specific marginal distribution costs in rate design dockets (e.g., No. 93.7.29). This issue, however, can be addressed in MPC's rate design docket.

14. Finally, there is the matter of what language the stipulation intended to include in the FEA for residential customers. The following language reflects the Commission's understanding of the stipulation as augmented by data responses and staff communication with MPC. This language must appear in the FEA section (Rule 6-1 A) of MPC's tariff:

A. In the case of an application for residential service:
   1. Overhead: 300 feet of electric extension or secondary extension (or any combination not to exceed 300 feet) plus the service drop (not to exceed 150 feet), transformer and meter.
   2. Underground: 250 total feet of electric primary or secondary extension (or any combination not to exceed 250 feet) plus the service drop (not to exceed 150

feet), transformer and meter.

15. The above tariff language, while not precisely in either MPC's initial proposal, nor in the stipulation, is what the Commission understands to be the intent of the stipulation. The language makes clear what is included in the primary and secondary extension. Also, while not addressed in testimony, the Commission understands a length of drop line may vary but rarely exceeds 150 additional feet. As stipulated, the underground extension proposal contained no mention of the service drop, meter or transformer.

16. Aside from these concerns, the Commission generally favors the line extension policies in the stipulation. Regardless of whether precise costs are known for the 300 foot electric FEA, the shifting of whatever costs are incurred to the cost causer is a major improvement. The 300 foot FEA, however, is really longer, including up to 150 feet of drop line. The Commission may reexamine this extension allowance in a rate design docket. Since over 60 percent of its extensions require no primary extension, those 40 percent of MPC's customers requiring a full 300 foot extension plus a 150 foot drop line may be subsidized. However, the residential electric policy as stipulated will short circuit those who attempt to obtain cross

subsidies to extend long lines into outlying rural areas. Line extensions based on all electric homes will no longer garner a long and free line extension, nor should policies incent customers to do so. The $.15/kwh allowance for non-residential extensions, although related to the 300 foot extension granted residential customers, may also be revisited in later rate design dockets.

CONCLUSIONS OF LAW

1. Montana Power Company (MPC) furnishes electric and natural gas service to consumers in the State of Montana and is a public utility subject to the regulatory jurisdiction of the Montana Public Service Commission (Commission) pursuant to Title 69, Chapter 3, Montana Code Annotated (MCA).

2. The Commission properly exercises jurisdiction over MPC's rates and operations. Section 69-3-102, MCA.

3. The Commission approves the changes to the tariff schedules for line extensions, pursuant to Section 69-3-302, MCA.

4. The Commission has provided adequate notice and opportunity to be heard in this docket. Section 69-3-303, MCA, and Title 2, Chapter 4, MCA. Montana Administrative Procedures Act (MAPA).

ORDER

Wherefore, the Montana Public Service Commission issues the following order:

MPC shall file with the Commission its revised electric and natural gas tariff schedules, and service tariffs as approved herein, setting forth the free extension allowances (FEAs) for electric line extensions and natural gas extensions. These tariffs shall become effective on January 1, 1994.

DONE AND DATED this 21st day of December, 1993, by a 5 to 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

BOB ANDERSON, Chairman

BOB ROWE, Vice Chairman

DAVE FISHER, Commissioner

NANCY McCAFFREE, Commissioner

DANNY OBERG, Commissioner

ATTEST:

Kathlene M. Anderson
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.